

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF KENTUCKY	)	CASE NO.
POWER COMPANY FOR THE TWO-YEAR	)	2009-00316
BILLING PERIOD ENDING JUNE 30, 2009	)	

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review and evaluate the past operations of the environmental surcharge at two-year intervals. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from July 1, 2007 through June 30, 2009.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony: (a) in support of the reasonableness of the

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<sup>1</sup> Case No. 1996-00489, The Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products (Ky. PSC May 27, 1997).

<sup>2</sup> Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2007 through June 2009 are based on costs incurred from May 2007 through April 2009.

application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. As a result of previous six-month and two-year surcharge reviews, the environmental surcharge provides recovery of the incremental costs associated with the original and first amendment to the compliance plan as well as the costs associated with the second and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS HEREBY ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. Kentucky Power shall appear at the Commission's offices, on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from July 1, 2007 through June 30, 2009. At the public hearing, there shall be no opening statements or summaries of testimony.

3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due on or before September 10, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within seven days of the Commission's granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

7. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 1996-00489, 2002-00169, 2004-00081, 2005-00068, 2005-00341, and 2006-00307<sup>3</sup> shall be incorporated by reference into the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

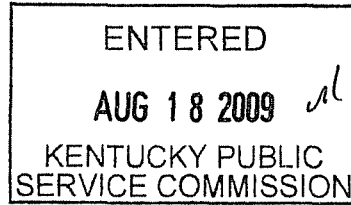
10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

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<sup>3</sup> Case No. 1996-00489, In the Matter of the Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products; Case No. 2002-00169, The Application of Kentucky Power d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff; Case No. 2004-00081, Motion of Kentucky Power Company d/b/a American Electric Power for Approval of Additional Operating Expenses Associated with Its Environmental Compliance Plan; Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff; Case No. 2005-00341, General Adjustments in Electric Rates of Kentucky Power Company; and Case No. 2006-00307, The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff.

By the Commission

Commissioner Borders abstains



ATTEST:

  
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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2009-00316 DATED **AUG 18 2009**

Kentucky Power shall file its prepared direct testimony and  
responses to the information requested in Appendix B  
no later than..... 09/10/2009

An informal technical conference is to begin at 1:30 p.m.,  
Eastern Daylight Time, in Conference Room 1 of the  
Commission's offices at 211 Sower Boulevard,  
Frankfort, Kentucky for the discussion of issues..... 10/01/2009

All additional requests for information to Kentucky Power  
shall be filed no later than..... 10/15/2009

Kentucky Power shall file responses to additional requests for  
information no later than ..... 10/25/2009

Intervenor testimony, if any, in verified prepared form,  
shall be filed no later than..... 11/09/2009

All requests for information to Intervenors shall be  
filed no later than ..... 11/23/2009

Intervenors shall file responses to requests for  
information no later than ..... 12/07/2009

Public Hearing is to begin at 10:00 a.m., Eastern  
Standard Time, in Hearing Room 1 of the Commission's  
offices at 211 Sower Boulevard, Frankfort, Kentucky,  
for the purpose of cross-examination of witnesses of  
Kentucky Power and Intervenors..... To be scheduled

Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2009-00316 DATED **AUG 18 2009**

#### DATA REQUEST TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales is reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. In Case No. 1996-00489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the two-year review case. Currently, the rate of return on common equity is 10.5 percent.

a. Does Kentucky Power believe that the 10.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If no to part (a), what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis and testimony supporting Kentucky Power's position.

4. Provide the following information as of April 30, 2009:

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. Determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

5. KRS 278.183(3) provides that, during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Does Kentucky Power believe any additional surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review?



b. If yes to part (a), provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, workpapers, and assumptions as well as any analysis that Kentucky Power believes supports its position.

6. Included in the environmental costs reported on ES Form 3.10, Costs Associated with Big Sandy, are property taxes. Explain the reason(s) for the fluctuations in the property taxes during the last six months of the review period.

7. Refer to ES Form 3.13, the Operation and Maintenance Expense summary, Line 10, Equipment – Associated Maintenance Expenses. Explain the primary reason(s) for the fluctuations in these maintenance expenses during the last six expense months that make up the review period.

8. Refer to ES Form 3.13, the Operation and Maintenance Expense summary, Line 9, Equipment – Associated Operating Expenses. Explain the primary reason(s) for the fluctuations in the operating expenses during the last six expense months in this review period.

9. Refer to ES Form 3.14, page 4 of 11, the Current Period Revenue Requirement, Ohio Power Company – Cardinal Plant Unit 1. Explain the primary reason(s) for the increase in the Utility Plant at Original Cost for the January 2009 expense month compared to the prior months in this review period.

10. Refer to ES Form 3.14, page 5 of 11, the Current Period Revenue Requirement, Ohio Power Company – Gavin Plant (Unit 1 & 2). Explain the primary

reason(s) for the increase in the Trona operating expense on Line 7 for the April 2009 expense month compared to the prior months in this review period.

11. Refer to ES Form 3.14, page 5 of 11, the Current Period Revenue Requirement, Ohio Power Company -- Gavin Plant (Unit 1 & 2). Explain the primary reason(s) for the increase in the Urea operating expense on Line 6 during the last six expense months in this review period.

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